



COUNCIL MINUTES

November 20, 2008

The City Council of the City of Mesa met in a Study Session in the lower level meeting room of the Council Chambers, 57 East 1st Street, on November 20, 2008 at 7:30 a.m.

COUNCIL PRESENT

Mayor Scott Smith
Alex Finter
Dina Higgins
Dennis Kavanaugh
Dave Richins
Scott Somers

COUNCIL ABSENT

Kyle Jones

OFFICERS PRESENT

Christopher Brady
Debbie Spinner

Mayor Smith excused Vice Mayor Jones from the entire meeting.

1. Hear a presentation, discuss and provide direction on the Proposed Substantial Amendment to the FY 08/09 Community Development Block Grant Annual Action Plan for the Neighborhood Stabilization Program.

Neighborhood Services Director Ray Villa advised that staff was seeking Council direction regarding the Proposed Substantial Amendment to the Community Development Block Grant (CDBG) Annual Action Plan in order to secure \$9,659,665 from the Neighborhood Stabilization Program (NSP). He added that today, November 20th, concludes the required fifteen day public comment period.

Mr. Villa displayed a PowerPoint Presentation (a copy is available for review in the City Clerk's Office) to provide background information on the request for funding, the purpose of which is to address abandoned and foreclosed properties. He advised that the funds are targeted for use in the 85204 zip code and the surrounding area. Mr. Villa reported that in addition to complying with HUD performance measures, staff would also track future foreclosure rates, Code violations and the number of Part 1 crimes in the area. He listed the City's partners in this effort, and he outlined the manner in which the funding would be allocated (see Attachment 1). He said that the overall goal of the Program is to acquire the property, turn the property over to the non-profit agencies and have the non-profit agencies work with individuals to purchase the property over time.

Responding to a comment from Mayor Smith, Mr. Villa confirmed that a "lease to own" option would be available.

Councilmember Richins expressed appreciation to staff for their work on this Program.

Discussion ensued relative to the fact that the City of Mesa would not be in the housing business as a result of participating in the Program; that the amounts allocated to administrative costs ensure that the General Fund will not be affected; and that any administrative cost savings would be reallocated to the Program.

In response to a question from Councilmember Somers, Mr. Villa stated the opinion that the non-profit agencies would be able to take over the properties, and he added that staff would work closely with the agencies to achieve that goal.

Mr. Villa addressed concerns expressed by Councilmember Higgins by advising that the timeline is the critical element, and he added that the Program requires home buyers to be qualified in order to ensure stabilization of the neighborhood.

Mayor Smith suggested that staff provide the Council with periodic updates on the progress of the Program.

Responding to a request by Councilmember Richins, Mr. Villa stated that staff progress reports would include details regarding the agencies involved in the Program.

Ms. Olson clarified that the Program timeline requires that the City enter into a contract for the property rehabilitation within eighteen months of acquisition.

Mayor Smith said that the Council recognizes that the Program would be a work in progress.

In response to comments made by Councilmember Higgins, Mr. Villa advised that a staff team would identify the target areas to ensure that appropriate properties are purchased and that the Program is operating properly. He added that staff responds to all citizen comments regarding the project.

Mayor Smith thanked staff for the presentation.

2. Hear a presentation, discuss and provide direction on budget issues, including but not limited to:

- a. Financial Forecast
- b. 2008/2009 Budget Status
- c. 2009/2010 Budget Recommendations

Mayor Smith said that the budget has generated a great deal of interest, and he noted that unlike many other cities in the Valley, the City of Mesa has experience with the budget reduction process. He stated that the City is addressing the current economic conditions on both a short-term and a long-term basis by seeking alternate methods of delivering services and programs. Mayor Smith emphasized that he did not want to minimize the human aspect of the economic crisis, and he added that many good City employees would be directly affected by the process. He commended staff for utilizing a creative approach in proposing long-term changes that will enable the City to continue to provide services with the resources that are available.

City Manager Christopher Brady stated that changes to operations and services are required in order to reflect the new global economic reality, and he noted that Mesa was particularly affected because of its reliance on a consumer-based economy. He said that staff viewed the circumstances as a challenge and an opportunity to develop a proposal that presents a new service delivery model for local governments. Mr. Brady reported that in the past five years, staff has made numerous innovative changes to become more efficient and reduce costs. He noted that Mesa experienced a fifteen percent sales tax shortfall at the beginning of the year and that the current shortfall is approximately \$5 million.

Mr. Brady advised that although the City planned for difficult times by establishing significant reserves, the economic downturn has been much quicker than anticipated and the rate of decline has been greater than in previous years, which requires budget adjustments as soon as possible in the new calendar year. He said that the reserves are insufficient to address the economic decline, which is forecasted to continue into the next fiscal year. Mr. Brady reported that the anticipated shortfall for the current fiscal year is \$33 million, and that an additional revenue shortfall of \$29 million is anticipated for Fiscal Year 2009-2010. He stated that staff has taken this opportunity to utilize a different approach in evaluating the City's programs and service delivery models. Mr. Brady added that the concerns expressed by most employees related to what they could do to save as many jobs as possible. He stated that staff's proposal for a two percent across the board salary reduction for all employees, elimination of cost of living adjustments, and suspension for one year of all merit and performance increases would save over \$14 million or the equivalent of 169 jobs. Mr. Brady reported that half of the positions scheduled to be eliminated are in the upper levels of professional and management personnel. He explained that during the next four Study Sessions, staff would present detailed information on service models and proposed reductions for Council consideration.

Mr. Brady stated that despite reductions throughout the organization during the past five years, Public Safety's budget has increased annually and represents more than seventy percent of the General Fund's expenditures. He said that Public Safety would continue to be the City's highest priority with an emphasis on the most critical response services by maintaining Police Officers on the street to respond to citizen calls and by creating a new model to address the growing demand for the Fire Department's emergency medical services. Mr. Brady advised that several departments would be consolidated, such as combining the functions of Planning, Building Safety and Code Compliance into the Development and Sustainability Department. He added that a section of the Energy and Water Conservation education area will be included in the Development and Sustainability Department in order to address these issues at the beginning of the development process and to encourage "green building." Mr. Brady explained that by combining three field inspection programs (Building, Zoning and Code Compliance) and cross-training Building Inspectors in the area of Code Compliance, the City is able to retain the expertise of these individuals during this time of slow construction activity. He said that the future consolidation of additional departments will result in fewer upper management positions. Mr. Brady reported that a new Library service model would be implemented that reduces the number of service hours, reduces the number of professional librarians on duty at any one time, and reduces the book budget by fifty percent. He advised that Parks and Recreation Programs are being scaled back, that "after-school programs" are being retained only in City-owned facilities, and that instructional swimming programs would take place in regional pools. He added that another proposal for Council consideration is to move the majority of City employees to a 4/10 work schedule.

Mr. Brady stated that addressing the revenue shortfall has been extremely difficult because of the magnitude of the challenge and the response time required. He said that many dedicated employees would be losing their jobs.

Budget Director Chuck Odom addressed the Council and stated that typically at this time of the year, staff presents a financial model for the next seven year period and through 2025. He said that because of the unforeseen and unprecedented decrease in City revenues, staff is presenting information related only to the immediate needs of the General Fund for the next eighteen months. Mr. Odom advised that staff would present information on the other funds in future months.

Mr. Odom displayed a PowerPoint presentation (a copy is available for review in the City Clerk's Office) to summarize the proposed service reductions. He referred to a pie chart (see Attachment 2) that indicated the City's "All Funds" adopted budget.

Mayor Smith noted that the debt service indicated on the pie chart is the General Obligation Bond debt that is paid by the City from General Fund revenues.

Mr. Odom continued the presentation by advising that the revenues from sales taxes, the Enterprise fund, and State-shared revenues account for 69 percent of the dollars available in the General Fund (see Attachment 3). He noted that the next chart (see Attachment 4) indicates budgeted allocations that are General Fund obligations which presently exceed the anticipated revenues.

Mr. Odom stated that Public Safety has received an increasing percentage of the General Fund dollars in the past few years. He referred to the "Operations and Maintenance" pie chart (see Attachment 5), which indicates areas that account for 78 percent of the General Fund budget. Mr. Odom noted that revenues are indicated on the outer circle and the services to be funded in the inner circle. He explained that the City has little control over the increasing costs of personal services, such as retirement contributions and health care.

Mr. Odom reported that the City has experienced an almost unprecedented fifty percent decline in building permit revenues, which is similar to the decline experienced by the Region.

Mayor Smith noted that during this economic climate, higher prices result in a greater percentage of income being spent on gasoline and food, neither of which generates revenue for the City.

Deputy City Manager Bryan Raines stated that at one time Mesa imposed a sales tax on food, and he advised that the tax would have generated an estimated \$20 to \$25 million in revenue if it had been in place during the current year.

Mr. Odom advised that "State shared revenues" are comprised of vehicle license taxes, State sales taxes, and urban revenue (income taxes) sharing. He stated that the decline in vehicle sales has significantly affected this revenue source. Mr. Odom added that the State is experiencing the same decline in sales tax revenue as is being experienced by the City. He reported that because there is a two-year delay in the distribution of urban shared revenues, the impact of the current economic decline would be realized two years from now.

Mayor Smith explained that several years ago, the State and local governments agreed that one entity, the State, would collect income taxes rather than each municipality levying a tax. He added that the agreement stipulated that fifteen percent of the revenues would be returned to the cities two years later.

Mr. Odom advised that the City is experiencing a decline in court fine revenues, and court personnel are analyzing the situation to determine the cause. He reviewed other revenue areas which are also experiencing declines across the board.

In response to a question from Councilmember Higgins, Mr. Odom explained that vehicle license fees are based on the age of the vehicle. He noted that a significant drop in the sale of new vehicles and an increase in the age of vehicles on the road results in a significant decrease in license fee revenues.

Discussion ensued relative to the fact that revenues generated by General Government impact fees on new construction are directed to pay for General Obligation bond debt for capital projects related to libraries, parks programs, and Public Safety needs; that the decline in construction projects has reduced the amount of impact fee revenues that are available to address bond debt; and that the impact fee shortfall must be addressed by the General Fund.

Mr. Odom advised that the decline in revenues and impact fees forces the City to reduce General Fund expenditures by \$33 million in FY 2008/09 and \$28.8 million in FY 2009/10 for a total of \$61.8 million. He noted that other unforeseen economic pressures may further affect revenues, and he added that contributions to the retirement systems are likely to increase.

Responding to a comment from Councilmember Richins, Mr. Odom advised that the City conducts statistical modeling on the major revenue sources and the City obtains data as a member of the University of Arizona (U of A) forecasting group.

Further discussion ensued relative to the fact that Arizona State University does not provide all of the services that are available from the U of A; that no one predicted the current state of the economy; and that the City of Mesa did forecast a decline in sales tax revenues.

Mayor Smith stated the opinion that the City was conservative in preparing the budget forecast.

Additional discussion ensued regarding the fact that State shared revenues may be reduced by the Legislature in order to address a shortfall in the State budget; and that a decrease of one-half of one percent in the allocation could amount to \$7.5 million in lost revenue to the City of Mesa.

Mr. Odom noted that the employee compensation adjustments outlined earlier by Mr. Brady enables the City to retain 169 positions in FY 2009/10. He reviewed the Citywide service adjustments, which total \$24.4 million in FY 2008/09 and \$25.9 million in FY 2009/10 and include compensation adjustments, Enterprise Fund operations cost savings and efficiencies, Quality of Life Fund adjustments and capital and one-time adjustments. Mr. Odom displayed a chart titled "Program Service Adjustments – Operations" (see Attachment 6) which lists the significant program adjustments that reflect a cumulative expenditure reduction of \$61.8 million through FY 2009/10.

Further discussion ensued relative to the fact that the Quality of Life tax revenues are included with sales tax revenues; that Quality of Life capital expenditures continue to be tracked; that the long-term Quality of Life obligation relates to labor costs for Police and Fire; and that Quality of Life costs, which exceed Quality of Life revenues, are subsidized by the General Fund.

Mr. Odom outlined the number of full time positions that are being eliminated as listed below:

Professional & Administrative Support	180.6
Public Safety – Civilian & Sworn	88.0
Skilled Technical Workers	<u>77.4</u>
	346.0
Potential outsourcing	<u>43.0</u>
Total	389.0

Additional discussion ensued relative to the fact that outsourcing would involve the privatization of certain City services; that approximately 75 percent of the positions listed for elimination are presently filled; and that Municipal Security is a key area being considered for outsourcing.

In response to a question from Councilmember Higgins, Mr. Brady advised that only vacant sworn Public Safety positions are being considered for elimination. He added that as sworn positions are vacated through attrition over time, the positions will be eliminated. Mr. Brady said that positions for individuals currently in the Academy would not be eliminated.

Responding to a question from Councilmember Finter, Mr. Odom advised that some of the positions scheduled to be eliminated are funded by the Enterprise Fund rather than the General Fund.

Mr. Odom responded to a question from Councilmember Higgins by advising that a “skilled technical worker” would include college-educated employees in Planning or Building Safety.

Mr. Brady stated the opinion that although the process has been difficult, opportunities exist in this proposal for Mesa to lead the way in developing new models of service. He said that the City would continue to provide services to the citizens of Mesa, and he advised that more detailed information would be presented to the Council during upcoming Study Sessions. He added that affected employees have been notified that January 9, 2009 would be their last day.

Councilmember Somers expressed concern that at a time when the opportunity for incredible growth is possible in the Phoenix-Mesa Gateway Airport area, the City is being forced to reduce the budget and eliminate staff members who have a high level of technical expertise.

Responding to a question from Councilmember Somers as to whether chartered and elected officials are included in the two percent pay decrease, Mr. Brady said that the intent was to include all employees. He noted that Council action may be required to implement the pay adjustment for chartered and elected officials.

Councilmember Somers stated the opinion that replacing three fire companies with three medical trucks represents a reduction in service to the public and that the lack of fire stations in

East Mesa poses a risk to public safety. He cited several scenarios with regard to both the Fire and Police Departments in which the budget reductions could affect the safety of the community.

Mayor Smith noted that the Council would have the opportunity to ask specific questions during the next several weeks.

Councilmember Kavanaugh commended staff for the thoughtful and innovative approach to addressing the budget. He noted that employees have made a significant investment in the process, and he concurred with Councilmember Somers that the level of City services would be diminished. Councilmember Kavanaugh added that in the past five years, City staff has successfully “hidden the pain” of City finances from the public by continuing to provide excellent service and “doing more with less.” He recalled that in the late 1980’s and again following the events of 9/11, many people realized that Mesa had a fragile revenue model. Councilmember Kavanaugh said that although many other Valley cities have a sales tax on food, Mesa’s tax on food was repealed several years ago when the Valley Business Owners placed the issue on the ballot, which resulted in a significant long-term impact on City revenues. He noted that the Financing the Future Committee, which was formed after 9/11, forecasted the current economic scenario because the City’s financing model “elevates risk above reason.” Councilmember Kavanaugh also expressed support for reconstituting the Financing the Future Committee and he added that he shared the concerns of other Councilmembers regarding Public Safety.

Mr. Brady responded to a question from Councilmember Kavanaugh by advising that although a portion of the fund balance would be utilized to address the revenue shortfall, the fund balance would remain at the eight to ten percent level, as requested by the Council.

Councilmember Higgins expressed concern that the City’s loss of young, innovative employees would negatively affect future operations.

Mayor Smith noted that normally citizens are not permitted to speak under Study Session agenda items, but he noted that Bryan Jeffries, representing the Mesa Firefighters, has requested the opportunity to address the Council regarding this agenda item.

Mr. Jeffries stated the opinion that eighty percent of the budget proposals regarding the Fire Department do meet the short-term needs for Public Safety during the current economic situation. He further stated that twenty percent of the proposed budget cuts compromise the safety of the community. Mr. Jeffries advised that Fire Department employees have been working to develop alternative ways to reduce the budget without compromising public safety, and he expressed the hope that the Council would consider the Department’s proposals as the budget process moves forward.

Mayor Smith said that the Council would look forward to hearing the proposals. He noted that some have questioned if “Building a Better Mesa” has been abandoned because of the financial crisis. Mayor Smith said that although the City may have to take a detour and adjust for the current situation, the objective remains the same. He noted that the City cannot continue to operate in the same manner and expect different results.

3. Hear reports on meetings and/or conferences attended.

Mayor Smith: Salt River Pima-Maricopa Indian Community event.

Councilmember Richins: 2030 Conference at Arizona State University.

4. Scheduling of meetings and general information.

Monday, November 24, 2008, 4:00 p.m. – Special Council Meeting

Thursday, November 27, 2008 – Study Session – Cancelled

Monday, December 1, 2008, TBA – Study Session

Monday, December 1, 2008, 5:45 p.m. – Regular Council meeting

Thursday, December 4, 2008, 7:30 a.m. – Study Session

5. Items from citizens present.

There were no items from citizens present.

6. Adjournment.

Without objection, the Study Session adjourned at 9:25 a.m.

SCOTT SMITH, MAYOR

ATTEST:

LINDA CROCKER, CITY CLERK

I hereby certify that the foregoing minutes are a true and correct copy of the minutes of the Study Session of the City Council of Mesa, Arizona, held on the 20th day of November 2008. I further certify that the meeting was duly called and held and that a quorum was present.

LINDA CROCKER, CITY CLERK

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Attachments (6)